

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT )  
FILING OF MARION COUNTY WATER ) CASE NO. 7901-1  
DISTRICT )

O R D E R

On August 13, 1984, Marion County Water District ("Marion County") filed its application with the Commission requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. Marion County proposed to recover the increase in purchased water expense from its wholesale supplier, the Lebanon Water Works Company, Inc., ("Lebanon") which became effective August 1, 1984. The Commission has accepted this proposal subject to the absorption test described herein.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

### TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1983, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

### REVENUES AND EXPENSES

Marion County did not propose any adjustments, as such, to its test year statement of operations. However, Marion County did include a calculation of the increase in purchased water costs resulting from the increased wholesale rate charged by Lebanon. The Commission, after careful examination of Marion County's financial condition, has made the following adjustments to Marion County's test-year operating statement in accordance with its established rate-making policies:

#### Purchased Water Expense

Marion County's purchased water expense for the test year was \$107,261. Marion County's normalized purchased water expense including the increase from Lebanon effective August 1, 1984, is \$120,183. Accordingly, the Commission has increased Marion County's operating expenses by \$12,922 to reflect the increased purchased water expense.

#### Depreciation Expense

Marion County's test-year depreciation expense was \$41,566. This reflects depreciation on total plant in service with a resulting composite rate of 1.9 percent.<sup>1</sup> It is the policy of

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<sup>1</sup>  $\$41,566 \div \$2,142,477 = 1.9401 \text{ percent.}$

the Commission to compute depreciation expense for rate-making purposes on non-contributed plant only. Such a policy insures that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

Marion County's balance sheet at the end of the test period reflects contributions in aid of construction of \$994,642 which represents 46.4 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense, the Commission has utilized Marion County's composite depreciation rate and excluded contributed property. This results in the exclusion of 46.4 percent of the test-year depreciation expense. The adjusted depreciation expense for rate-making purposes is \$22,269<sup>2</sup> which reflects a reduction of \$19,297.

Adjustments to the test period operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$310,163	\$ -0-	\$310,163
Operating Expenses	228,380	<6,375>	222,005
Operating Income	\$ 81,783	\$ 6,375	\$ 88,158
Other Income	19,280	-0-	19,280
Other Deductions	42,062	-0-	42,062
Net Income	<u>\$ 59,001</u>	<u>\$ 6,375</u>	<u>\$ 65,376</u>

<sup>2</sup>  $\$994,642 \div \$2,142,477 = 46.4249\% \times \$41,566 = \$19,297$   
 $\$41,566 - \$19,297 = \$22,269$

### REVENUE REQUIREMENTS

Marion County's average annual debt service for the next 5 years is \$50,373. The Commission is of the opinion that a debt-service coverage of 1.2X is a fair, just and reasonable coverage for Marion County to maintain in that it meets the requirements of its lenders and provides an adequate surplus for equity growth. Based on adjusted test period operations, the Commission finds that Marion County's current rates generate sufficient revenues to meet its operating needs and, therefore, no rate adjustment is necessary. This is demonstrated as follows:

Adjusted Operating Expenses	\$222,005
1.2X Debt-Service Coverage	<u>60,448</u>
Revenue Requirement	\$282,453
Less:	
Adjusted Operating Revenue	310,163
Adjusted Other Income	<u>15,091</u>
Increase Required	<u><u>\$&lt;42,801&gt;</u></u>

Thus, Marion County's current revenue levels exceed its required revenues by \$42,801. Therefore, the Commission is of the opinion that Marion County can and should absorb \$12,922, which is the full amount of the increase in its purchased water cost.

### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The purchased water adjustment clause proposed by Marion County is in compliance with 807 KAR 5:067 and should be approved.

2. Marion County has the potential to absorb \$12,922, which is the full amount of the increase in its purchased water cost.

3. The rates proposed by Marion County produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

4. The base rates for future application of the purchased water adjustment clause of Marion County for purchased water shall be those set out in Appendix A.

IT IS THEREFORE ORDERED that the purchased water adjustment clause proposed by Marion County be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Marion County be and they hereby are denied.

IT IS FURTHER ORDERED that the rates currently charged by Marion County are fair, just and reasonable and should continue to be charged.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Marion County the base rates for purchased water shall be those set out in Appendix A.

IT IS FURTHER ORDERED that Marion County shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the purchased water adjustment clause approved herein.

Done at Frankfort, Kentucky, this 24th day of September, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hensley  
Chairman

Richard D. Hensley  
Vice Chairman

Jim Shuey  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 7901-1 DATED 9/24/84

For the purpose of future application of the purchased water adjustment clause of Marion County Water District, the base rates for purchased water shall be:

SUPPLIER

LEBANON WATER WORKS COMPANY, INC.

Rates

<u>Cubic Feet</u>	<u>Amount</u>
0 to 200	\$ 3.91
201 to 300	5.06
301 to 400	6.21
401 to 500	7.36
501 to 600	8.51
601 to 700	9.43
701 to 800	10.35
801 to 900	11.27
901 to 1000	12.19
1001 to 1100	13.11
1101 to 1200	14.03
1201 to 1300	14.95
1301 to 1400	15.87
1401 to 1500	16.79
1501 to 1600	17.60
1601 to 1700	18.40
1701 to 1800	19.21
1801 to 1900	20.01
1901 to 2000	20.82

<u>Cubic Feet</u>	<u>Amount</u>
2001 to 2100	\$21.62
2101 to 2200	22.43
2201 to 2300	23.23
2301 to 2400	24.04
2401 to 2500	24.84
2501 to 2600	25.65
2601 to 2700	26.45
2701 to 2800	27.26
2801 to 2900	28.06
2901 to 3000	28.87

Next 7,000 cu. ft.  
.63 per 100 cu. ft.

Next 990,000 cu. ft.  
.58 per 100 cu. ft.

All Over 1,000,000 cu. ft.  
.52 per 100 cu. ft.